SUPREME COURT, U. S.

IN THE

SUPREME COURT OF THE UNITED STATES

TERM 1971

No. 71-4

FRONTIER CONTACT LENSES, INC. and
WILLIAM FEINBLOOM,

Petitioners,

versus

THE PLASTIC CONTACT LENS COMPANY,

Respondent.

PETITION FOR CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

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Frontier Contact lenses, Inc. (formerly known and sued herein as Frontier of the Northeast, Inc.) Amended Defendant, and William Feinbloom, Supplemental Defendant, petition for a Writ of Certiorari to review the opinion and judgment of the United States Court of Appeals for the Second Circuit decided April 1, 1971, which affirmed the judgment of the Court below, and in doing so, rejected the grounds relied upon by the Lower Court, and affirmed by reversing the said Lower Court in the area it found for the

Defendant-Appellants.

OPINIONS BELOW

The opinion below is as yet unreported, but the same is presented herein in the Appendix, as Appendix A. The District Court Opinion is not reported and appears in the Appendix, as Appendix B.

JURISDICTIONAL STATEMENT

The opinion and judgment of the Court of Appeals was entered on April 1, 1971. The jurisdiction of this Court is invoked under 28 U.S.C. Section 1254 (1).

QUESTIONS PRESENTED

1. Where the respondent grants appellant a non-exclusive contact lense patent license, which provides that should said respondent grant any third party the rights to such patent "upon terms and conditions more favorable", then and in that event respondent shall promptly offer appellant-licensee the benefit of such more favorable terms - the sole exception being for the "manner of settlement for past infringement"; and where, subsequently, said respondent and a third party (Butterfield) bring respect-

ive actions against each other for alleged past infringement of respectively owned patents; and where, as part of the settlement arrived at, both parties to said litigation, and on the record, stipulate that respondent and respondent alone, was guilty of past infringement and as partial compensation therefore, respondent grants the third party (Butterfield) and four additional competitors of appellant, royalty free licenses on respondent's patent with which appellant is concerned - without offering appellant the same "more favorable terms", can respondent enforce subsequent payment of royalties from appellant pursuant to the terms of the original license agreement?

2. Can the United States Circuit Court of Appeals for the Second Circuit reject the fingings on which the Lower Court granted respondent judgment, and use as its sole basis for affirmance a finding that the Butterfield agreement of settlement (wherein respondent admitted to being the guilty violator for past infringement) was within the exception for the "manner of settlement for past infringement" in violation of the stipulated agreement by respondent and Butterfield made in open Court, and in contradiction to the specific finding by the Presiding Justice in the Court Below who heard and tried the case?

3. May the respondent impose as a "condition" to appellant's right to use its patent, the payment of royalties upon all lenses it manufactured, whether such lenses came under its patent or not, whether such lenses came under its patent or not, whether in fact the goods being manufactured were patented or non-patented?

4. Can the respondent require the payment of royalties on its non-exclusive patent license agreement when, after its own violation thereof (by granting Butterfield and four additional competitors of appellant's royalty free licenses therefore, without granting appellant the same "more favorable terms") the uncontradicted record shows that appellant never used respondent's patent after the agreement was breached by said respondent?

STATEMENT OF THE CASE

On or about July 26, 1963, respondent, The Plastic Contact Lens Company (Plastic) instituted this action against defendant-appellant Frontier of the Northeast, Inc. (Frontier) to recover royalties alleged to be due from Petitioner (Frontier) under a license agreement effective January 1, 1961, and to enjoin Frontier from

manufacturing or selling contact lenses under the license without paying royalties to Plastic. The license permitted Frontier to manufacture and sell contact lenses under the teaching of the Tuohy patent. In its answer, Frontier denied that any royalties were payable, alleging that it was entitled to a rayalty-free license pursuant to the "most favored licensee" clause in the license because Plastic had granted royalty-free licenses to five other licensee, all of whom were competitors of Frontier. Frontier also asserted a counterclaim for royalties paid by it for a short period of time under mistake of law and fact after the time the other royalty-free licenses were granted (April 24, 1962), not having previously known of the more favored treatment accorded its competitors by respondent.

Frontier had changed its name to Frontier Contact Lenses, Inc., before commencement of this action, and the complaint was amended to reflect the change of name upon the stipulation of the parties (Record on Appeal, Document No. 6).

Frontier was dissolved in accordance with Article 10 of the New York State Business Corporation Law in January of 1966. On Plastic's motion, the three liquidating stockholders of Frontier, Allan A. Isen (Isen),

George F. Sitterle (Sitterle), and William Feinbloom (Feinbloom) were added as supplemental defendants as distributees of the assets of Frontier.

Supplemental complaints were served on Isen, Sitterle and Feinbloom on or about February of 1968. The supplemental complaint alleges that Isen, Sitterle and Feinbloom are individually liable to Plastic for any royalties owned by the corporate defendant Frontier to Plastic upon the ground that the three individuals are the liquidating shareholders and distributees of the assets of Frontier. The answer of Isen and Sitterle alleges that Frontier was entitled to a royalty-free license pursuant to the most favored licensee clause of Frontier's license agreement, and that the supplemental complaint fails to state a cause of action against them individually (20-24). The answer of Feinbloom, in addition to a general denial, asserts the statute of limitations and non-participation in the alleged transactions as affirmative defenses (25-26).

After trial without jury, the District Court for the Western District of New York, John T. Curtin, J., held that a settlement agreement executed in April 1962 between Plastic and George H. Butterfield, Sr. and George H. Butterfield & Son (Butterfield settlement) dis-

continuing Civil Case No. 60-107 in the District Court of Oregon, constituted consideration for a royalty-free license granted to Butterfield and the Butterfield corporation, even though the parties had stipulated that respondent had infringed on Butterfield's patent and Butterfield had not infringed on respondent's patent. The Court further held that this settlement was also consideration for royalty-free licenses granted to Southern Contact Lens Laboratories, Inc. Titmus Optical Co., Rogers Bros., and Utah Optical Supply Co., who were not even parties to the Plastic-Butterfield lawsuit, and who were aggressive competitors of appellant. The Court concluded, therefore, that the royalty-free licenses granted by Plastic were not on "more favorable terms" than the Plastic-Frontier license, because Plastic presumably received consideration from Butterfield, and that such licenses did not therefore violate the most favored licensee clause of the Frontier license agreement (32-33).

The Court did, however specifically reject Plastic's argument that the grant of a royalty-free license to Butterfield was in consideration of the "settlement for past infringement" exception to the most favored licensee clause of the Frontier license agreement.

Alternatively, the Court held that even if the rant of royalty-free licenses to Butterfield and the four on-parties to the Plastic-Butterfield litigation did violate ne most favored licensee clause of Frontier's License, rontier was obligated to pay royalties because it continued manufacture lenses after obtaining knowledge of Plastic's reach of the license. This, even though the uncontradicted ecord shows that Frontier did no manufacturing under the uohy patent after the most favored licensee clause of rontier's license had in fact been violated.

The Court also held that Plastic complied with ne "most favored licensee" clause by offering in October 962 (six months after the Butterfield settlement) to grant rontier a royalty-free license if Frontier could provide ne undefined "consideration" purportedly given by Butter- eld to Plastic. This even though such "consideration" as impossible to supple since it required termination of tigation between two holders of patents and the payment y Plastic to Butterfield the sum of $66,000.00 as the dmitted wrongdoer.

The Court interpreted the license to require rontier to pay royalties to Plastic "for all devices manu- actured whether under the Tuohy, Butterfield or any other

atent covering corneal contact lens" upon the ground that manufacturer of contact lenses cannot always tell whose atent the lenses are fitted under by the eye doctor.

And finally, the Court held that the three individual defendants, Isen, Sitterle and Feinbloom, held the ssets which they received upon the dissolution of Frontier, n trust for the benefit of creditors and were to that extent ointly and severally liable to Plastic.

The defendants were ordered to account to lastic and to pay royalties on all the contact lenses manuactured and sold by Frontier during the full term of the cense agreement regardless as to whether or not these enses were manufactured under the Tuohy patent or not. Special Master was appointed to make that determination. e found that based upon all sales for the full period of the çense agreement approximately $60,000 would be due on oyalties and judgment was entered accordingly.

An appeal was then taken from the final order nd judgment of the District Court for the Western District f New York confirming the report of the Special Master, adidging the defendants jointly and severally liable for oyalties on all lenses manufactured by Frontier during the erm of the license agreement.

The United States Circuit Court of Appeals for the Second Circuit affirmed the judgment of the Court below but rejecting the District Court's holding that the Butterfield settlement constituted consideration for the royalty-free licenses granted to Butterfield and the four other competitors of petitioners, and also rejected the District Court's further holding that even if the grant of royalty-free licenses to the foregoing five parties and violate the most favored license clause of Frontier's license, "Frontier was nonetheless liable for the unpaid royalties since it did not terminate the license agreement when it stopped paying royalties, but continued to manufacture lenses under the protection of the Tuohy patent". Conversely, the Circuit Court, after removing the basis for the District Court's decision in finding for respondent, then reverses the Lower Court again, by holding that the finding by JudgeGurtin that the Butterfield settlement did not come within the exception "for the manner of past infringement" in the most favored-licensee clause was erroneous, and that it did come within such exception, and thus relieved Plastic from liability as a breacher of that clause. Thus, completely reversing the Lower Court on all of its important findings, the Circuit Court neverthe-

less affirmed the decision below.

FACTS

Frontier was a New York corporation engaged in the manufacture and sale of contact lenses. Frontier was licensed by George H. Butterfield, Sr. on November 21, 1960, to manufacture and sell contact lenses pursuant to the teachings of Butterfield Patent No. 2,544,246. The Butterfield patent was the basic and leading patent in the field, and Frontier manufactured and sold lenses under that patent until it was dissolved in 1966.

Subsequently, Frontier entered into a license agreement with Solex Laboratories, Inc., effective January 1, 1961, which permitted Frontier to manufacture and sell lenses under the teachings of Tuohy Patent No. 2,510,438. Article 8 of this Solex license contained a non-conditional "most favored licensee" clause which provided that if Solex thereafter granted a license to another upon terms and conditions more favorable than the terms accorded Frontier, Solex would promptly offer Frontier the benefits of such favorable terms which would, upon acceptance by Frontier become retroactive to the date such terms were accepted by the other firm.

As a result of these license agreements Frontier

paid royalties to both Solex and Butterfield. In addition, it made lenses which did not come under either patent. On April 12, 1961, Solex assigned its rights under the Tuohy patent to Plastic. This assignment included the Solex-Frontier license, and Frontier thereafter paid royalties to Plastic instead of Solex.

In April 1962, Plastic was a party to the settlement of certain patent infringement litigation in the United States District Court for the District of Oregon in the case of Solex Laboratories and The Plastic Contact Lens Company v. George H. Butterfield, Sr. and George H. Butterfield & Son, Civil Docket No. 60-107. Solex had sued Butterfield alleging that Butterfield had infringed the Tuohy patent. Butterfield denied any infringement of the Tuohy patent and filed counterclaims for infringement of the Butterfield patent. Eventually a stipulation was filed with the Court, reciting the parties' agreements as to the facts and matters relevant to the litigation. Among other things, the parties agreed on the record, that Solex had, in fact, infringed the Butterfield patent and that full settlement for damages arising from that infringement had been made out of Court. In addition, it was stipulated and agreed, as a fact, that Butterfield had not infringed the Tuohy patent and accordingly the complaint of Solex and Plastic should

be dismissed on the merits.

Annexed to the stipulation is a settlement agreement executed by Plastic, Solex and Butterfield (Exhibits, pp. 25-30). In this agreement, Plastic granted to George H. Butterfield, Sr. the right to grant royalty-free licenses to four Butterfield licensees and to the Butterfield family corporation, George H. Butterfield & Son. The four Butterfield licensees were not parties to the Pastic-Butterfield litigation. Plastic also paid Butterfield $66,000 in partial compensation for the infringement of the Butterfield patent. A consent judgment terminating the litigation was entered based upon the aforementioned stipulation of facts and the settlement agreement.

Royalty-free licenses of the Tuohy patent were granted by Plastic through Butterfield to four Butterfield licensees - Titmus Optical Co., Utah Optical Supply Co., Rogers Bros., and Southern Contact Lens Laboratories, Inc. (all being competitors of petitioners). None of these four companies was a party to the Plastic-Butterfield litigation, and not one provided Plastic with any consideration for the royalty-free licenses to use the Tuohy patent granted to them by Plastic. Plastic did not, however, offer a royalty-free license to petitioner Frontier, which was also a Butterfield licensee. This put Frontier at a serious

competitive disadvantage with the four royalty-free licensees who could, and did, manufacture and sell lenses at lower cost since they were not required to pay royalties upon their products.

It was not until October 25, 1962, more than six months after the Butterfield settlement was executed, that Plastic first informed Frontier and its other licensees of the settlement with Butterfield and of the grants of the royalty-free licenses. Plastic's letter of October 25, 1962, advised Frontier that Plastic and Solex had been charged with infringing the Butterfield patent, and that to avoid the cost of litigation and the risk of losing the case, Plastic entered into a settlement authorizing George H. Butterfield, Sr. to grant royalty-free licenses under the Tuohy patent to the Butterfield family corporation and to four other manufacturers who were erroneously described in the letter as being "the four other companies which at that time were licensed under the Butterfield patent", petitioner was in fact a fifth such company. As indicated, Frontier was also licensed under the Butterfield patent at the time of the settlement. The letter advised Frontier that, in the opinion of Plastic's counsel, the settlement with Butterfield did not constitute the granting

f a license under the Tuohy patent "upon terms and con-
itions more favorable" than those previously granted to
rontier, even though the licenses to Butterfield and the
our companies, who were not parties either to the
utterfield litigation or to the settlement agreement, were
oyalty-free. Despite this assertion, Plastic made a con-
itional, and impossible to fulfill, offer to grant a royalty-
ee license to Frontier provided that Frontier held a
cense which had been infringed by Plastic and that such
nfringement had been of such magnitude as to produce a
ontingent liability comparable to the liability of Plastic
or its infringement of the Butterfield patent. This letter
eglected to mention the $66,000 Plastic was paying But-
erfield and clearly was a sham.

After receiving this letter, Frontier deter-
ined that Plastic had breached its license agreement by
ranting royalty-free licenses and not making the same
vailable to Frontier on an unconditional basis. Frontier
herefore promptly discontinued making royalty payments
o Plastic in November 1962. Frontier also seeks to re-
over royalties paid by Frontier to Plastic between May
nd October, 1962, in ignorance of the Butterfield-Plastic

settlement.

The Tuohy patent fell into disfavor during the latter part of the 1950's because the Tuohy lens touched the cornea of the eye and caused damage to the eye. Frontier did not manufacture or sell any lenses coming within the Tuohy patent after October 1962, the date of its discovery of the breach by Plastic. This stands uncontradicted in the record.

Frontier was entitled to royalty-free use of the Tuohy patent after April 1962, by virtue of the most favored licensee clause in its license with Plastic, since Plastic granted a royalty-free license to Butterfield in settlement of litigation, and since Plastic granted royalty-free licenses to four manufacturers who were neither parties to the Plastic-Butterfield litigation nor to the settlement agreement. Despite irrelevant claims by Plastic that it received "consideration" from Butterfield for the grant of the royalty-free license to Butterfield, it was not, and could not be claimed that any of the four non-party manufacturers afforded any consideration to Plastic for their royalty-free licenses. Moreover, if the license is interpreted to require Frontier to pay royalties upon all

lenses manufactured - irrespective of whether the lenses come within the teachinf of the Tuohy patent - then the license constitutes a misuse of the patent and is unenforceable. In any event, Frontier is not liable, since it did not manufacture or sell any lenses under the Tuohy patent after it ceased to pay royalties to Plastic.

REASONS FOR GRANTING THE WRIT

I.

In this case both the United States District Court and the United States Circuit Court of Appeals reject each others findings and contradict each others conclusions. Clearly, the law as determined by these Courts is in conflict and requires clarification by this highest Judicial Body.

The lower Court found that the royalty-free licenses granted by Plastic to George H. Butterfield, Sr. in the Butterfield settlement, and to four competitors of Frontier who were not parties to the Butterfield litigation or settlement, were not granted in consideration of the "settlement for past infringement" exception to the most favored licensee clause of the license agreement.

However, the Court held, without fenefit of testimony or admissible evidence, that the settlement between Plastic and Butterfield constituted consideration not only for the Butterfield royalty-free license, but also for the royalty-free licenses granted to the four competitors of Frontier, none of whom were parties to the litigation or the settlement. The lower Court concluded, therefore, that the royalty-free licenses granted by Plastic to four competitors of Frontier were not on "more favorable terms" than the Plastic-Frontier license, and did not violate the most favored licensee clause.

As an alternative basis for his decision, Judge Curtin held that even if the grant of royalty-free licenses to Butterfield and the four non-parties to the Plastic-Butterfield litigation did violate the most-favored-licensee clause of Frontier's license, Frontier was none-theless liable for the unpaid royalties, since it did not terminate the license agreement when it stopped paying royalties, but continued to manufacture lenses under the protection of the Tuohy patent.

However, the Circuit Court of Appeals rejects Judge Curtin's finding that there was consideration given to the respondent by Butterfield and the four additional

licensees for the patent free licenses; and also rejected the lower Court's finding that petitioner continued to manufacture lenses under the Tuohy patent after Plastic's breach (2,308;2309).

And additionally, said Circuit Court again reverses the lower Court by stating that Judge Curtin was wrong when he found as a fact that the Butterfield settlement did not come within the exception "for the manner of settlement for past infringement" in the most favored licensee clause and therefore it relieved Plastic from liability as a breacher of that clause (2309).

We, therefore, find in the case at Bar, an almost incredible situation where the United States Court of Appeals for the Second Circuit reverses the lower Court on every important finding (regardless as to which party it favors or disfavors) and then concludes by affirming judgment in favor of the respondent (plaintiff below).

Confusion as to the law of the case could not conceivably be greater; nor the need for guidance and clarification by this Court to the other Circuits, more urgent.

II.

The Circuit Court of Appeals, in finding as its

sole basis for judgment to be granted to respondent the fact that "in our opinion, the Butterfield settlement came within the exception 'for the most favored licensee clause' thus relieving Plastic from liability as a breacher of that clause" completely disregards, and in fact contradicts, the stipulation entered into in open Court and upon the record by Plastic and Butterfield that Plastic and Plastic alone was the infringer and guilty party.

For the Circuit Court goes on to say (2309):

> "In the Butterfield settlement, the parties agreed and represented to the Court that Butterfield had not infringed the Tuohy patent and that Plastic had infringed the Butterfield patent. Thus, says Frontier, since there had been no infringement of the Tuohy patent, there could be no 'settlement for past infringement' of that patent.
>
> "We disagree* * *Hence, even if the Butterfield settlement were for infringement of the Butterfield patent only, as Frontier argues, it would come within the exception." (2310)

Incredibly, what the Circuit Court has said is that even if Plastic infringed on the Butterfield patent, and was the sole wrongdoer, it should be reqarded by permitting it to settle the claim against it by granting royalty free licenses to Butterfield and four other competitors of petitioners "on more favorable terms" than

the Plastic-Frontier license and Frontier would still be required to pay its previously stipulated royalties. Such a construction voids and violates the very heart and meaning of the "most favored licensee clause" concept.

Under the settled case law, therefore, Plastic itself granted the royalty-free sub-licenses to the four Butterfield licensees. These four sub-licensees paid nothing whatsoever in exchange for the royalty-free Tuohy licenses. None of these four sub-licensees was required to release any claims which it might have had against Plastic or Solex. None was required to suffer any detriment whatsoever in order to receive the royalty-free Tuohy license, since each was already paying royalties to Butterfield under existing licenses with Butterfield.

In granting the royalty-free licenses to the four Butterfield licensees, Plastic placed them at a competitive advantage over Frontier. This is precisely what the most favored licensee clause was designed and intended to prevent. If the lower Court's decision is allowed to stand, the most favored licensee clause would be a meaningless and deceptive trap designed to induce manufacturers to take licenses in the mistaken

belief that no others would be treated more favorably and thus given a competitive edge. Cutting through the smoke-screen, the undeniable fact is that Plastic gave royalty-free licenses to use the Tuohy patent to Titmus, Southern, Utah and Rogers, and that Frontier, therefore, was entitled to the same treatment.

At the time Plastic granted the royalty-free licenses to the four licensees of Butterfield, Frontier was also a licensee of Butterfield under the same Butterfield patent. Frontier's license agreement with Butterfield had not been terminated, nor was Frontier in arrears in royalty payments to Butterfield. Frontier thus met all the conditions established in the royalty-free licenses under the Tuohy patent granted by Plastic to the four Butterfield licensees.

The lower Court attempted to distinguished the Frontier-Butterfield license from the other four Butterfield licenses upon the ground that Butterfield had agreed to indemnify the other four licensees for infringement of the Tuohy patent, but did not have this agreement with Frontier. The fact that the other four Butterfield licensees were indemnified by Butterfield for any possible violations of other patents while practicing under the Butterfield pat-

ent is wholly irrelevant. Any such indemnity agreement constituted at most an added consideration from Butterfield to these other licensees at the time their Butterfield licenses were granted, and does not alter the dominating fact that these other licensees, as subsequently licensed by Plastic under the Tuohy patent, were accorded more favorable terms than those accorded to defendant. Further, it was stipulated by Plastic in the Butterfield settlement that there had been no infringement of the Tuohy patent, and consequently the Butterfield licensees had no claim arising under the indemnity agreement.

Under Article 8 of the License, Plastic had a duty to "promptly offer licensee (Frontier) the benefit of such more favorable terms and conditions" that it granted to Butterfield and his sub-licensees. Of course, the offer had to be made in accordance with the terms of the contract. Wheelock v. Tanner, 39, N.Y. 481 (1868). Plastic could not alter the terms of the most favored licensee clause without the consent of Frontier. Becker v. Faber, 280 N.Y. 146, 19 N.E. 2d 997 (1939). Yet, Plastic's letter of October 25, 1962 contained the conditions, not permitted by Article 8 that Frontier would have had to render additional consideration, equivalent to that

allegedly given George H. Butterfield, Sr., in order to receive the benefit of the more favorable terms.. The letter of October 25, 1962, came more than six months after Plastic's grant of royalty-free licenses. It did not comply with the terms of the contract and cannot be regarded as fulfillment of Plastic's obligations.

III.

The respondent (Plastic) never appealed that part of the trial Court's decision which factually held that the "butterfield settlement did not come within the purview of the exception to the most favored licensee clause (36). Therefore, this issue was not even before the Circuit Court, which improperly reversed the lower Court on this uncontested finding, and on its own, decided to grant plaintiff-respondent judgment thereon.

The exception to the most favored licensee clause is "for manner of settlement for past infringement" of the Tuohy patent, nor for manner of settlement of past infringement of the Butterfield or any other patent. In the Butterfield litigation, the parties agreed and represented to the Court that Butterfield had not infringed the Tuohy patent, and that Plastic had infringed the Butterfield

patent.

Since there had been no infringement of the Tuohy patent, there could, of course, be no "settlement for past infringement of the Tuohy patent", and the lower Court here properly held that the Butterfield settlement did not come within the purview of the exception to the most favored licensee clause (36). In any event, Plastic's election not to appeal bars any challenge to this portion of the trial Court's decision.

Frontier had no condition which it was required to perform under the license in order to give rise to Plastic's duty to offer the terms of more favorable subsequent licenses to Frontier under the most favored licensee clause. Frontier has not been accorded the benefit of its contract with Plastic; part of that benefit - for which Frontier bargained and for which it paid the bargained for consideration - was the enjoyment of more favorable subsequent licenses. Frontier has not breached its license with Plastic; indeed, Frontier seeks only to enforce that agreement.

That Frontier can enforce its license agreement and recover upon its counterclaim is clear. In St. Joseph Iron Works v. Farmers Manufacturing Co., 106 F 2d 294

(4th Circuit), an action to recover patent license royalties, the licensee was held entitled to recover on its counterclaim the amount of royalties already paid to the licensor's agent, as damages for the licensor's breach of the most favored licensee clause. The most favored licensee clause in St. Joseph, supra, was strikingly similar to Article 8 of the Frontier license:

> "If (licensor) grants to other party a license on one or more of the patents or applications for patents, which are the subject matter of this agreement, upon more favorable terms and/or royalty rates than those specified herein, (licensor) shall give immediate written notice thereof to (licensee). If (licensee) so elects, it shall automatically become entitled to such more favorable terms and/or royalty rates." 106 F. 2d at p. 296.

IV.

This Supreme Court has already held that a patent owner may not "condition" his right to use his patent upon the payment of royalties on non-patented goods (Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969)) and that such an agreement is non-enforceable. This decision, which came down on October 29, 1969 (the trial in the case at Bar being in September 1969) was rendered subsequent to the trial of the within action, but

before Judge Curtin rendered his decision.

The Circuit Court, while conceeding the possible application of this landmark case (Zenith) to the facts in the case at Bar, and acknowledging it to be the law of the land (2313-2314), rejects Frontier's right to have the law in the Zenith case applied to its case on the incredible ground that defendants should have moved for a new trial upon learning of the Zenith case. It does concede that Judge Curtin's attention was in fact called to the Zenith decision in post-trial memorandums (2314).

In other words, the Circuit Court in its decision clearly indicates that "Zenith" is the law of the land; that it may very well apply to the case at Bar; that Judge Curtin's attention was called to this new and recent decision by the Supreme Court; but since a new trial was not requested, the District Court Judge had the right to make a decision which was contra to the direction of the Supreme Court of the United States.

In paragraph 7 of the complaint and the supplemental complaint, Plastic alleges that its predecessor Solex entered into a non-exclusive license agreement with Frontier with respect to the manufacture and sale by Frontier of contact lens devices covered by the Tuohy

patent (4-16). And in paragraph 8 of the complaint and supplemental complaint, Plastic alleges that Frontier agreed to pay royalties upon "all such devices" referring to devices manufactured under the teachings of the Tuohy patent (4-5, 16-17). The license agreement (Exhibits, pp 1-10) grants to Frontier a non-exclusive license to manufacture devices under the teachings of the Tuohy patent and to use and sell such devices manufactured in the United States, its territories and possessions, and paragraph 2 (a) of the agreement requires Frontier to pay royalty upon "such devices" which refers to devices manufactured, used and sold under the Tuohy patent as defined in paragraph 1 of the agreement (Exhibits, pp. 2-3). By the terms of the license agreement, therefore, Frontier was legally obligated to pay royalties only upon leases which it manufactured, used or sold which came within the teachings of the Tuohy patent.

Pursuant to motion brought by Frontier, Judge Henderson of the United States District Court of the Western District of New York on January 5, 1968, ordered Plastic to provide Frontier with copies of all of its license agreements for the Tuohy license, but, to preserve confid-

entiality, allowed Plastic to delete or obliterate any identification of the signatories to the licenses (13). Plastic delivered copies of some 155 license agreements to Frontier. Plastic's president testified that each and every one of Plastic's license agreements with its other licenses contained the same language concerning the field within which the licensee must pay royalties. It is not surprising, therefore, that Plastic drew the license agreements to require payment of royalties only upon those devices coming within the teachings of the Tuohy patent, since Plastic would have been liable for treble damages for patent misuse had Plastic insisted that its licensees pay royalties upon all lenses irrespective of whether the lens was manufactured within the teaching of the Tuohy patent. Zenith Radio Corp. v. Hazeltine Research, Inc., supra.

In Zenith Radio, supra, the Supreme Court held that the patent owner may not condition the right to use his patent upon the payment of royalties upon non-patented goods:

> "We also think patent misuse inheres in a patentee's insistence on a percentage-of-sales royalty, regardless of use, and his rejection of licensee proposals to pay only for actual use. Unquestionably, a licensee must pay if he uses the patent. Equally, however, he may insist on paying only for use, and not on the basis of total

> sales, including products in which he may use a competing patent or in which no patented ideas are used at all. There is nothing in the right granted the patentee to keep others from using, selling, or manufacturing his invention which empowers him to insist on payment not only for use but also for producing products which do not employ his discoveries at all." 395 U.S. at p. 139.

Zenith Radio was not decided until after the trial of the case at Bar (but it was decided before the trial Court granted its decision in the instant case). Since Zenith Radio, supra, was unavailable to appellants at the time of trial, certain evidence concerning misuse of the Tuohy patent was not presented. At a new trial, the former officers of Frontier would be expected to testify that Solex, Plastic's predecessor, refused to grant a license under the Tuohy patent to Frontier except upon condition that Frontier pay royalties upon "all such devices" which is in the language included in paragraph 2 of the license agreement. Further, the same language is included in all 155 other licenses which Plastic turned over to Frontier upon the order of Judge Henderson. The fact that every license granted by Solex and Plastic contains the very same language concerning the field of royalties, creates the strongest possible inference that Solex and Plastics refused to deal with their

their licensees except upon the terms of their standard field of royalties clause.

Therefore, if the field of royalties clause in the Solex and Plastic licenses includes not only contact lens devices and manufactured and sold under the teachings of the Tuohy patent, but also includes lenses not manufactured under the teachings of the Tuohy patent as was contended by Plastic in the lower Court, then the license agreement constitutes a misuse of the Tuohy patent and is unenforceable. Zenith Radio Corp. vs. Hazeltine Research, Inc., supra. A new trial should be directed upon the important issue of patent misuse if this Court is unable to reverse the order and judgment appealed from based upon the other issues presented.

Further, Frontier only promised to pay royalties in the license agreement. A royalty is defined as a "payment reserved by the grant of a patent, lease of a mine, or similar right and payable proportionately to the use made of the right by the grantee." Black's Law Dictionary, 4th Ed. 1951 (emphasis added.) If there is no use made of the Tuohy patent, then there is no duty to pay royalties. The burden of proving use of the patent is, of course, on the plaintiff. That burden was in no way satisfied.

The trial Court failed to make any finding concerning the number, if any, of the lenses manufactured and sold by Frontier pursuant to the teachings of the Tuohy patent. Instead, the Court completely avoided the issue by holding that the license agreement required Frontier to pay royalties "for all devices made, whether under the Tuohy, Butterfield or another patent". This is in contradiction to Zenith Radio, supra, and not in accordance with the license agreement entered into between the parties.

The judgment of the Courts below stand as a clear contradiction and challenge to the decision of this Supreme Court in Zenith Radio Corp. v. Hazeltine Research, Inc., supra, and should be reversed, or in the alternative, a new trial should be granted to permit defendants to submit specific evidence and proof pursuant to "Zenith".

CONCLUSION

THIS PETITION FOR A WRIT OF CERTIORARI SHOULD BE GRANTED.

Respectfully submitted,

MOSES M. FALK
Attorney for Petitioners

Dated: June 28, 1971

APPENDIX 'A'

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

Nos. 436, 506—September Term, 1970.

(Argued March 1, 1971 Decided April 1, 1971.)

Docket Nos. 35376, 35680

THE PLASTIC CONTACT LENS COMPANY,

Plaintiff-Appellee,

—v.—

FRONTIER OF THE NORTHEAST, INC.,

Defendant-Appellant,

FRONTIER CONTACT LENSES, INC.,

Defendant-Appellant,

ALLAN A. ISEN, GEORGE F. SITTERLE,
and WILLIAM FEINBLOOM,

Defendants-Appellants.

Before:

LUMBARD, *Chief Judge,*
KAUFMAN and ANDERSON, *Circuit Judges.*

Appeal by defendants from a judgment of the District Court for the Western District of New York, John T. Curtin, *J.*, after trial without a jury, granting plaintiff's

claim for an accounting and payment of royalties under a nonexclusive patent license agreement.

Affirmed.

MARVIN M. KARPATKIN, New York, N. Y. (Karpatkin, Ohrenstein & Karpatkin, New York, N. Y., Kavinoky, Cook, Hepp, Sandler and Gardner, Buffalo, N. Y., Panter, Nelson & Bernfield, Chicago, Ill., Irwin Panter and Charles R. Sandler, on the brief), *for plaintiff-appellee.*

VICTOR T. FUZAK (Hodgson, Russ, Andrews, Woods & Goodyear, Buffalo, N. Y., and Frederick A. Muller, on the brief), *for defendants-appellants Frontier of the Northeast, Inc., Frontier Contact Lenses, Inc., Allan A. Isen and George F. Sitterle.*

MOSES M. FALK, New York, N. Y., *for defendant-appellant William Feinbloom.*

LUMBARD, *Chief Judge*:

In this action, plaintiff, The Plastic Contact Lens Co. (Plastic), sought an accounting and the payment of royalties under a nonexclusive patent license agreement between it and defendant Frontier Contact Lenses Inc. (Frontier).[1] After trial without a jury in the Western District of New York, Judge John T. Curtin, by order dated October 29,

1 Before the beginning of this action, the defendant changed its name from Frontier of the Northeast, Inc. to Frontier Contact Lenses, Inc. On January 6, 1966, the corporation was dissolved; and on January 5, 1968, its liquidating stockholders, Allan A. Isen, George F. Sitterle, and William Feinbloom, were added as defendants by order of Judge John O. Henderson.

1969, upheld Plastic's claim and directed and approved an accounting by a special master. Frontier and the other defendants appeal from Judge Curtin's order. For the reasons set forth below, we affirm.

The facts of this case are fully and accurately presented in Judge Curtin's opinion, reported at —— F. Supp. —— (1971). Briefly, they are as follows: On January 1, 1961, Frontier and Solex Laboratories, Inc. (Solex), both of which were engaged in the manufacture and sale of contact lenses, entered into a license agreement by which Solex granted to Frontier a nonexclusive license to manufacture and sell corneal contact lenses under United States Patent No. 2,510,438 (the Tuohy patent), which Solex owned. In return, Frontier was required to make monthly accountings and payments to Solex for all corneal lenses manufactured.[2] Paragraph 8 of the agreement provided:

> "SOLEX agrees that in the event it should hereafter grant a license to another person, firm or corporation

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2 Paragraph 2(a) of the agreement provides:

> (a) LICENSEE, solely for the purpose of accounting hereunder, agrees to pay to SOLEX royalties upon such devices consisting of pieces of finished material in which two lens surfaces are applied thereto and which are adapted to be or are made into a finished or unfinished corneal contact lens calculated in accordance with the following schedule on all such devices sold by LICENSEE:
>
> $1.00 on each pair of the first 150 pairs of devices or $.50 per device
>
> $ .75 on each pair of the next 100,000 pairs of devices or $.375 per device
>
> $ .50 on each pair of the next 100,000 pairs of devices or $.25 per device
>
> $ .25 on each pair of all additional pairs of devices or $.125 per device.
>
> LICENSEE shall not pay royalties to SOLEX on finished or unfinished lenses (i.e. lenses upon which two lens surfaces are already formed) when purchased from SOLEX or from a licensee of SOLEX, and such lenses shall not be counted in the total number of devices sold by LICENSEE under the schedule hereinabove.

under said Patent No. 2,510,438, or under any other United States patent or application licensed hereunder upon terms and conditions more favorable than those herein accorded, except for the manner of settlement for past infringement, SOLEX shall promptly offer LICENSEE the benefit of such more favorable terms and conditions, which upon acceptance shall be retroactive to the date that such more favorable terms and conditions were accepted by said other person, firm or corporation."

On April 12, 1961, Solex assigned the Tuohy patent to the plaintiff, Plastic, along with all its rights as licensor under certain nonexclusive license agreements including the one with Frontier. The Tuohy patent expired on June 6, 1967.

At the time of the assignment, Plastic had a license from George H. Butterfield and George H. Butterfield & Sons, Inc. (Butterfield) to manufacture contact lenses under United States Patent No. 2,544,246 (the Butterfield patent). The Tuohy patent and the Butterfield patent are very similar and were the two most important in the field. In 1960, Plastic's predecessor, Solex, sued Butterfield for infringement of the Tuohy patent, and Butterfield counterclaimed for infringement of the Butterfield patent. In April 1962, Plastic and Butterfield reached a settlement under which Plastic released Butterfield and its licensees from all claims of infringement of the Tuohy patent, paid Butterfield $66,000, and granted Butterfield the right to grant royalty-free licenses under the Tuohy patent to itself and to four named Butterfield licensees.[3] In return, Butter-

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3 Those four licensees of Butterfield were Titmus Optical Co., Utah Optical Supply Co., Rogers Bros., and Southern Contact Lens Laboratories, Inc. All four had agreements with Butterfield by which Butterfield agreed to indemnify them for infringement of the Tuohy patent.

field dismissed all claims against Plastic and granted Plastic a royalty-free license under the Butterfield patent.[4]

On October 25, 1962, after entering into the settlement with Butterfield, Plastic sent a letter to its licensees, including Frontier, informing them of the settlement terms and explaining its position that the terms of the licenses granted to the Butterfield interests were not "more favorable" than those in the Frontier license. Nevertheless, the letter did offer Plastic's licensees the opportunity to get a revised license if they would give consideration similar to that given by Butterfield.

Upon receipt of this letter, Frontier stopped payment of royalties to Plastic. It wrote to Plastic arguing that Plastic had breached paragraph 8, the most-favored-licensee clause of their agreement, because the grant of royalty-free licenses to Butterfield and the four licensees was "upon terms and conditions more favorable" than those given to Frontier, which still had to pay royalties under the Tuohy patent. Frontier claimed that it should get a royalty-free license without paying any further consideration, since the four favored Butterfield licensees did not have to pay anything and since it too was a Butterfield licensee. Plastic refused and in July 1963 filed suit demanding an accounting pursuant to the license agreement.

The district court held that Butterfield settlement constituted consideration for the royalty-free licenses granted to Butterfield and its four licensees and thus that that grant was not on more favorable terms and conditions than the Plastic-Frontier license, since Frontier refused to give similar consideration. Judge Curtin recognized—and in-

4. The settlement agreement was summarized by the court in *The Plastic Contact Lens Co.* v. *Butterfield*, 366 F.2d 338, 340 (9th Cir. 1966), cert. denied 385 U.S. 1009 (1967).

deed it is undisputed—that Butterfield itself gave consideration in the settlement.[5] The question was whether the four favored Butterfield licensees paid consideration to Plastic for their royalty-free licenses. Frontier contends that they paid nothing, and hence that it, as another Butterfield licensee, was also entitled to a royalty-free license from Plastic under the most-favored-licensee clause. Judge Curtin rejected this argument, finding that the four favored licensees did pay consideration. He distinguished their situation from that of Frontier by stating:

> "Butterfield has agreed to indemnify the other four licensees for infringement of the Tuohy patent but did not have this agreement with Frontier. The four indemnified licensees paid Butterfield for the added protection. Further, this court finds, as the court did in PCL [The Plastic Contact Lens Co.] v. Guaranteed Contact Lens, 283 F. Supp. 850 (S.D.N.Y. 1968), that the consideration given by Butterfield was not only for the grant given to Butterfield, but also for the grant given to the four licensees." —— F. Supp. at ——.

As an alternative basis for his decision, Judge Curtin held that even if the grant of royalty-free licenses to Butterfield and the four non-parties to the Plastic-Butterfield litigation did violate the most-favored-licensee clause of Frontier's license, Frontier was nonetheless liable for the

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5. Under the terms of the settlement agreement, Butterfield released all claims against Plastic for infringement of its patent, granted Plastic a royalty-free license under its patent, recognized Plastic's ownership of the Tuohy patent, granted Plastic the right to solicit Butterfield licensees for the Tuohy patent, and granted Plastic the right to convey to its own (Plastic's) licensees the same kind of royalty-free license under the Butterfield patent that Butterfield received with respect to the Tuohy patent as concerned the four specified Butterfield licensees. The settlement also dissolved a burdensome preliminary injunction against Plastic.

unpaid royalties, since it did not terminate the license agreement when it stopped paying royalties, but continued to manufacture lenses under the protection of the Tuohy patent.

We affirm the judgment of the district court, but we do not do so on either of the grounds relied upon by Judge Curtin in his opinion. Rather, we base our decision on the fact that, in our opinion, the Butterfield settlement came within the exception "for the manner of settlement for past infringement" in the most-favored-licensee clause, thus relieving Plastic from liability as a breacher of that clause.

Judge Curtin expressly found that the Butterfield settlement did *not* come within the above exception, but he did not give any reasons for his finding. Frontier also contends that the exception is not applicable to the licenses granted to the Butterfield interests. It argues that the exception is "for the manner of settlement for past infringement" of the Tuohy patent, not for the manner of settlement of past infringement of the Butterfield or any other patent. In the Butterfield settlement, the parties agreed and represented to the Court that Butterfield had not infringed the Tuohy patent and that Plastic had infringed the Butterfield patent. Thus, says Frontier, since there had been no infringement of the Tuohy patent, there could be no "settlement for past infringement" of that patent.

We disagree. Frontier's reading of the exception to state "except for the manner of settlement for past infringement of the Tuohy patent" is simply not what the clause says. The words which Frontier would like are used elsewhere in the license agreement to make clear that the infringement referred to is infringement of the Tuohy patent;[6]

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6 Such specific references to infringement of the *Tuohy* patent may be found in paragraphs 9, 11 and 13 of the agreement.

those words are not used here. Hence, even if the Butterfield settlement were for infringement of the Butterfield patent only, as Frontier argues, it would come within the exception.

Beyond this, it seems clear to us that the Butterfield settlement was for infringement not only of the Butterfield patent, but also of the Tuohy patent. The litigation settled involved reciprocal claims of infringement of both patents. The fact that the settlement included a stipulation that Butterfield had not infringed the Tuohy patent is irrelevant, since that stipulation, having a dollar value, was merely part of the exchange of consideration in the settlement. It is not the same as a finding of no infringement by a court, after testimony and argument, and hence has no real probative value. See *Plastic Contact Lens Co* v. *Guaranteed Contact Lens, Inc.*, 283 F. Supp. 850, 853 (S.D.N.Y. 1968). The Butterfield settlement, then, did come within the above exception; and because of the indemnity arrangement between Butterfield and it four favored licensees, the indirect grant to those licensees was an integral part of that settlement. For these reasons, we hold that Plastic did not violate the most-favored-licensee clause, and hence that Frontier is liable for the unpaid royalties on the contact lenses.

The remaining question involves the extent of Frontier's liability. Frontier argues that if it is found liable, it should not be required to pay royalties for the period after 1962, since it claims that it discontinued using the Tuohy patent for its lenses some time during that year.

Judge Curtin rejected this contention on the ground that lenses manufactured under the two patents are so similar that it is not always possible for the manufacturer of the lenses to tell under whose patent the lenses are fitted by

the eye doctor. Dr. Isen himself, one of the defendants, testified to this effect.[7] Moreover, Judge Curtin found that for this very reason the Plastic-Frontier license agreement required Frontier to pay royalties to Plastic for all lenses manufactured, whether under the Tuohy, Butterfield, or any other patent. He found that when Frontier entered the agreement, it understood this to be the situation, particularly since Frontier had no systematic method of determining which lens it was manufacturing or what patent it was using. Judge Curtin felt further that Frontier's actual practice of paying Plastic a small sum for *all*

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7 He stated:

> "The lenses, the patents that we are talking about are patents which describe methods of fitting the lenses and we manufacture lenses according to the orders that doctors send us and so we cannot always tell under whose patent they may be fitted under by the doctor."

The court in *The Plastic Contact Lens Co.* v. *Butterfield*, 366 F.2d 338, 340, 341, 344 (9th Cir. 1966), cert. denied, 385 U.S. 1009 (1967), described the two patents as follows:

> "There is, of course, a technical difference in the arts defined in the two patents. The Tuohy patent calls for a contact lens which, on its inner surface, has a curve of greater radius than the portion of the eye which it covers. This is to provide 'a small but gradually increasing clearance' between the lens and the tissue of the eye, thus allowing for lubrication which is claimed to be desirable. . . . Butterfield patent generally discloses a contact lens with two or more concentric curves on the inner surface, designed to conform to the eye's underlying curvature throughout the area covered by the lens.
>
> . . . . . .
>
> "In reviewing the record, one is struck by the similarity of the inventions taught by the two patents. One undertaking to construct a device under the teachings of the one patent, because of variations in the curvature of human eyes and the close precision required, confronted almost certain risks of infringing the other patent. It was inevitable, as the history reveals, that licensees of Butterfield would be exposed to claims of infringement of the Tuohy patent and that licensees of Plastic would be charged with trespass upon the rights of Butterfield."

lenses manufactured until 1962 supported his conclusion that Frontier so understood the agreement. Hence, the district court required Frontier to pay royalties to Plastic for the period after 1962. We agree.

The first question in this area is whether Frontier in fact stopped manufacturing lenses under the Tuohy patent in 1962. Frontier says that it did stop and tries to show how different the two types of lenses are. But this is a factual question, and there is sufficient evidence of similarity and confusion to support Judge Curtin's finding in this regard.

Second, even if Frontier did stop using the Tuohy patent in 1962, the license agreement required payment of royalties to Plastic on *all* lenses manufactured and sold, and hence Frontier is liable for the unpaid royalties on all such lenses manufactured and sold during the term of the license agreement, even after 1962. Although Frontier now argues that the license agreement required payment to Plastic only for so long as it used the Tuohy patent, both the wording of the agreement itself and Frontier's prior actions and practice belie its argument. The wording of paragraph 2(a) of the agreement requires Frontier to pay royalties to Plastic on "all such devices sold by LICENSEE."[8] Furthermore, it seems clear to us that Frontier understood that its duty was to pay on all devices, not just

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8 Paragraph 2(a) is quoted in full in note 2 *supra*.

Moreover, the intent and effect of the words of that paragraph, "solely for the purpose of accounting hereunder," is and must be to create a different standard of royalty accounting than that limited to manufacture and sale under the teaching of the Tuohy patent. Otherwise, there would have been no reason for the deliberate insertion of the special phrase "solely for the purpose of accounting hereunder." That phrase is intended to distinguish between, on the one hand, the grant of the license, which can only be under the patent in paragraph 1, and, on the other hand, the special provisions for royalty payments otherwise than in accordance with the coverage of the patent, in paragraph 2.

on those made under the Tuohy patent, for it did so until October 1962.[9] There was no mistake of fact here.

On this appeal, Frontier makes the new argument, not advanced below, that if the agreement really required its payment on *all* devices, then that agreement may have constituted a misuse of the Tuohy patent under *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969), and is thus unenforceable. In *Zenith*, the Supreme Court held that the patent owner may not "condition" his right to use his patent upon the payment of royalties on nonpatented goods. Frontier seeks to excuse its failure to make this argument below on the ground that *Zenith* was not decided until after the trial of the case at bar. It contends that since *Zenith* was not available at the time of trial, it did not present evidence of unlawful "conditioning" such as that condemned by the Supreme Court's decision.[10] Thus,

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9 Indeed, Dr. Isen himself testified as follows:

> "Well, the payment was made on all devices because it was my understanding of the agreement that we should pay royalties on all devices according to the accounting procedures."

See note 7 *supra* and accompanying text. Moreover, Frontier's post-trial memorandum differs from its present position on this issue and from its position at the trial itself. That memorandum stated:

> "It is conceded that the license agreement required Frontier to pay royalties, under defined circumstances, on all lenses produced . . . . It is also clear why this arrangement was made; it would have been impractical to keep records of lenses made under the Tuohy patent. Hence the phrase 'solely for the purpose of accounting.'"

10 Indeed, on the record before us, there is no evidence of such conditioning. The conditioning condemned in *Zenith* was the licensor's use of "the power of his patent to insist on a total-sales royalty and to override protestations of the licensee that some of his products are unsuited to the patent or that for some lines of his merchandise he has no need or desire to purchase the privileges of the patent." 395 U.S. at 139. In interpreting *Zenith*, we have held that "Relevant criteria in determining whether there was 'conditioning' would include whether the provision was bargained for or imposed and whether the licensee made 'protestations' which were overridden. . . . [T]he mere

Frontier concludes, the case should be remanded to give it an opportunity to present evidence of conditioning under *Zenith*.

We reject this contention. Although the trial was conducted on September 16 and 17, 1968, there was considerable post-trial briefing and the district court did not render its decision until October 29, 1969. *Zenith* was decided by the Supreme Court on May 19, 1969, more than five months prior to the district court's decision. In addition, Plastic expressly cited *Zenith* to the district court in its reply post-trial memorandum, dated June 23, 1969. Thus Frontier and its counsel should have been aware of the *Zenith* decision at least four, and probably five, months prior to the decision of the court below. This was certainly ample time for Frontier to move to reopen the trial proceedings. Since it failed to do so, it cannot now raise this issue for the first time on appeal.[11]

Affirmed.

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fact of agreement is not determinative." *Glen Mfg. Inc. v. Perfect Fit Industries*, 420 F.2d 319, 321 (2d Cir.), cert. denied, 397 U.S. 1042 (1970). Nothing in the present record shows that Plastic insisted on the agreement in the face of Frontier's protestations, if any were made, or that Plastic rejected alternative proposals by Frontier, if any were offered.

11 In any event, the very license agreement involved here was upheld in the face of a *Zenith* attack in *Plastic Contact Lens Co.* v. *W. R. S. Contact Lens Laboratories, Inc.*, —— F. Supp. —— (S.D.N.Y. 1970).

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APPENDIX B

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF NEW YORK

THE PLASTIC CONTACT LENS COMPANY,

Plaintiff

-vs- Civil 10,362

FRONTIER OF THE NORTHEAST, INC.,

Defendant

FRONTIER CONTACT LENSES, INC.,

Amended Defendant

ALLAN A. ISEN, GEORGE F. SITTERLE and WILLIAM FEINBLOOM,

Supplemental Defendants

APPEARANCES: Karpatkin, Ohrenstein & Karpatkin (Marvin M. Karpatkin, Of Counsel), New York, New York,

Panter, Nelson & Bernfield (Irwin Panter, Esq., of Counsel), Chicago, Illinois, and

Kavinoky, Cook, Hepp, Sandler & Gardner (Charles R. Sandler & Wayne D. Wisbaum of Counsel), Buffalo, New York

For the Plaintiff

Hodgson, Russ, Andrews, Woods & Goodyear (Victor T. Fuzak, of Counsel), Buffalo, New York, for the Defendant

Frontier Contact Lenses, Inc., and Supplemental Defendants Allan A. Isen and George F. Sitterle.

Moses M. Falk, New York, New York for the Supplemental Defendant William Feinbloom.

* * * * * * * * * * * * * * * * * *

In this action, the plaintiff seeks an accounting and the payment of royalties pursuant to a licensing agreement entered into with the defendant. This case was tried without a jury and the court has considered the exhibits, testimony and memoranda submitted by the parties and makes the following findings of fact and conclusions of law.

Plaintiff, The Plastic Contact Lens Company (hereinafter called "PCL"), is an Illinois corporation engaged in the manufacture and sale of contact lenses and optical equipment.

The defendant (hereinafter "Frontier"), before the beginning of this action, changed its name from "Frontier of the Northeast, Inc." to "Frontier Contact Lenses, Inc." It was a New York corporation engaged in the manufacture and sale of contact lenses. On January

6, 1966, the corporate defendant, Frontier, was dissolved and the liquidating stockholders of the corporation are the supplemental defendants, Allan A. Isen, George F. Sitterle and William Feinbloom, added as defendants by order of Judge John O. Henderson on January 5, 1968.

The license agreement entered into between the parties was effective on January 1, 1961. Up until April 12, 1961, Solex Laboratories, Inc. (hereinafter "Solex") was the owner of the Tuohy patent, United States Patent No. 2,510,438, for corneal contact lenses, which expired on June 6, 1967. On April 12, 1961, Solex assigned this patent to the plaintiff, PCL, including its rights as licensor under certain non-exclusive patent license agreements including the one with Frontier. This agreement granted to Frontier a non-exclusive license to manufacture, use and sell lenses under the Tuohy patent.

In return for the right to manufacture lenses under the Tuohy patent, Frontier was to make monthly accountings and payments for all corneal plastic lenses manufactured. [1]

Frontier accounted and paid monthly from February, 1961 until October, 1962. After that, no further

payments were made but Frontier continued to file monthly accountings until February, 1965.

In October, 1962, Frontier stopped payment when PCL notified Frontier that PCL granted a license in the Tuohy patent to George H. Butterfield and George H. Butterfield & Sons, Inc. (hereinafter "Butterfield") and other Butterfield licensees as part of a settlement agreement between PCL and Butterfield. Frontier claims that this grant of a license violated Section 8 of the agreement between PCL and Frontier. Section 8 provides:

> "SOLEX agrees that in the event it should hereafter grant a license to another person, firm or corporation under said Patent No. 2,510,438, or under any other United States patent or application licensed hereunder upon terms and conditions more favorable than those herein accorded, except for the manner of settlement for past infringement, SOLEX shall promptly offer LICENSEE t he benefit of such more favorable terms and conditions, which upon acceptance shall be retroactive to the date that such more favorable terms and conditions were accepted by said other person, firm or corporation."

Frontier claims that the grant of the license to Butterfield was "upon terms and conditions more favorable" than those given to Frontier, and that PCL had the duty in April, 1962 when the settlement was made to

"promptly offer licensee (Frontier) the benefit of such more favorable conditions.". PCL denies giving "more favorable terms" to Butterfield, pointing out that it received substantial consideration from Butterfield for the grant of the licenses. Secondly, PCL claims compliance with the license agreement because, by its letter of October 25, 1962, it gave Frontier and other licensees the opportunity to obtain a revised license if they were able to give PCL consideration similar to that given by Butterfield. In addition, PCL argues that the grant of license to Butterfield was "for the manner of settlement for past infringement" and therefore relieved PCL of the duty to grant a revised license to Frontier.

Plaintiff PCL demands an accounting and payment for all lenses manufactured by Frontier from October, 1962 until June, 1967 when the patent expired. Defendant, Frontier, not only resists payment for this period but counterclaims for sums paid to PCL for the period April, 1962 until October, 1962.

When Frontier learned of the PCL-Butterfield settlement, it explicitly informed PCL, by letter of May 14, 1963, that it chose not to terminate the agreement.

The theory of the Frontier defense is that PCL breached the license contract when it granted the license to the Butterfield interests.

To better understand the present controversy between PCL and Frontier, part of the history of prior litigation between PCL and Butterfield is set forth.

In May, 1960, PCL purchased from Butterfield a license under the Butterfield patent and, in November, 1960, acquired Solex and the rights to the Tuohy patent. These two patents were the most important in the field. Tuohy, the pioneer and senior, was entitled to a broad and liberal construction. PCL v. Butterfield, 366 F. 2d 338, 341 (9th Cir. 1966).

In 1960, Solex, PCL's predecessor, sued Butterfield in the District Court in Oregon (Civil No. 60-107), alleging Butterfield had infringed the Tuohy patent, and sought damages. Butterfield denied any infringement and filed counterclaims for infringement of the Butterfield patent. Butterfield's motion for a temporary injunction restraining PCL (as the successor to Solex) from suing licensees of Butterfield for the infringement was granted by the court. This seriously hampered

PCL's licensing program.

A settlement agreement between PCL and Butterfield was entered into in April, 1962, and at the trial before this Court, the settlement documents were received in evidence. The April, 1962 settlement was short-lived and, in July, 1963, Butterfield sued PCL claiming a breach of the settlement agreement. In PCL v. Butterfield, 366 F 2d 338 (9th Cir. 1966), the court summarized the settlement agreement.[2]

In the agreement, PCL granted to Butterfield "the right to grant royalty free licenses under the Tuohy patent to four Butterfield licensees and to the Butterfield corporation." Frontier's argument is that this grant violated Section 8 of the PCL-Frontier license since it was made on "more favorable terms" than those granted to Frontier.

At the present trial, the court did not consider the offered testimony of PCL's general counsel concerning the backbround of the settlement agreement.

On October 25, 1962, after entering into the settlement with Butterfield, PCL sent a letter to its licensees, including Frontier, informing them of the settle-

ment terms.[3] The letter explained PCL's position that the terms of the licenses granted to the Butterfield interests were not "more favorable" than those in the Frontier license. Nevertheless, by the letter, PCL offered revised terms to any licensee who considered the Butterfield license "more favorable" and who was in a position to grant PCL consideration equivalent to that received from Butterfield.

Upon receipt of this letter, Frontier stopped payment but continued to make monthly accountings. When no payment was received, PCL sent several dunning letters to Frontier. In March, 1963, Frontier informed PCL that it had stopped payment because of the Butterfield settlement, and that it was in the process of conferring with counsel. On May 14, 1963, Frontier wrote to PCL[4] claiming that the grant of the licenses to the sublicensees of Butterfield was a violation of Section 8 of the PCL-Frontier license agreement. Frontier pointed out that, at the time of the grant to the Butterfield licensees, Frontier was in the same position as these licensees since it was a paid-up licensee of Butterfield. The only difference admitted was that Butterfield had agreed to indemnify the other licensees for infringement of the Tuohy patent, but had not agreed to indemnify Frontier. Arguing that this,

difference was of no consequence, Frontier demanded the same royalty-free license granted to the four Butterfield licensees. Frontier's letter continued:

> "We do not now choose to exercise our right to cancel our agreement with Plastic on account of this default."

The letter further demanded return of the payments made to PCL for the period May, 1962 to October, 1962.

After receipt of this letter, PCL filed suit in July, 1963 demanding an accounting pursuant to the license agreement. At the trial, Frontier, in addition to making the argument set forth in its May 14, 1963 letter, also claimed that the grant of a license to Butterfield itself violated the agreement.

Concerning these arguments, the court finds that there was substantial consideration given by Butterfield to PCL for the licenses received for itself and for its sublicensees. Frontier's argument that the settlement agreement was a complete capitulation by PCL to the demands of Butterfield is rejected. PCL received a paid-up license to the Butterfield patent, the right to solicit Butterfield licensees for the Tuohy patent, and the right to sue for infringement of the Tuohy patent. The settlement agreement also relieved PCL from the heavy burden of the

District Court injunction which tied up its licensing program. It may be difficult to put a dollar value on this consideration, but it was substantial. Beyond stating that the license granted to the Butterfield interests was on "more favorable terms," Frontier offered no evidence whatever to support its argument. The court concludes that the grant to the Butterfield interests was not on "more favorable terms" and did not violate the license agreement. The fact that Frontier was also a Butterfield licensee does not give Frontier the same standing as the others. Butterfield had agreed to indemnify the other four licensees for infringement of the Tuohy patent, but did not have this agreement with Frontier. The four indemnified licenses paid Butterfield for the added protection. Further, this court finds, as the court did in PCL v. Guaranteed Contact Lens, 283 F. Supp. 850 (S. D. N. Y. 1968), that the consideration given by Butterfield was not only for the grant given to Butterfield, but also for the grant given to the four licensees.

Assuming for the moment that the grant to the Butterfield interests was on "more favorable terms" and violated the agreement, what follows? Frontier chose not to terminate the license agreement but continued to manufacture lenses under the protection of the Tuohy patent.

In Specialties Development Corp. v. C-O-Two

Tire Equipment Co., 207 F. 2d 753 (3d Cir. 1953), the ourt construed New York law in a case where the licen- or breached the agreement by failing to prosecute in- ringers of the patent. The licensee, knowing of the reach, continued to take advantage of the patent and anufacture articles under it. The court held that the censee was obliged to pay royalties for the use of the atent. In the Specialties Development case, the court llowed Rosenthal Paper Co. v. National Folding Box Paper Co., 226 N.Y. 313 (1919), where, under similar ircumstances, the licensee was obliged to pay even ough he was not aware of the breach of the contract by e licensor.

Therefore, since Frontier had the advantage f the Tuohy patent and continued to manufacture lenses nder it, it is obliged to pay royalty even if the grant to e Butterfield interests was on "more favorable terms."

In addition, PCL, by its letter of October 25, 962, extended to any licensee who could show that the terms ere "more favorable" the right to a revised license on erms equivalent to those granted to Butterfield. Because f this offer, it complied with Section 8 of the license agree- ent even if the grant to the Butterfield interest was on

ore favorable terms". See Plactic Contact Lens v. aranteed Contact Lens, supra. Frontier merely de- nded a "royalty-free Tuohy patent license" and took other steps to meet the offer of PCL.

At the trial, Frontier made additional arguments urged before in the pleadings or pretrial meetings. e first is that it should not be required to pay for len- not manufactured under the Tuohy patent; the second, t it discontinued using the Tuohy patent some time dur- 1962 and, therefore, should not be required to pay er the use of the patent ended. Both arguments depend n whether it is possible to tell one lens from another a practical routine fashion. Even Dr. Isen, one of the endants, admitted this could not be done. He testified:

> "The lenses, the patents that we are talking about are patents which describe methods of fitting the lenses and we manufacture lenses according to the orders that doctors send us and so we cannot always tell under whose patent they may be fitted under by the doctor."

The court, in PCL v. Butterfield, 366 F. 2d (9th Cir. 1968), 340, 341, described the Tuohy and Butterfield patents:

> "There is, of course, a technical difference in the arts defined in the two patents. The Tuohy patent calls for a

> contact lens which, on its inner surface, has a curve of greater radius than the portion of the eye which it covers. This is to provide 'a small but gradually increasing clearance' between the lens and the issue of the eye, thus allowing for lubrication which is claimed to be desirable. * * * Butterfield patent generally discloses a contact lens with two or more concentric curves on the inner surface, designed to conform to the eye's underlying curvature throughout the area covered by the lens."

Further, at Page 344, the court went on to comment about the similarity between the two devices:

> "In reviewing the record, one is struck by the similarity of the inventions taught by the two patents. One undertaking to construct a device under the teachings of the one patent, because of variations in the curvature of human eyes and the close precision required, confronted almost certain risks of infringing the other patent. It was inevitable, as the history reveals, that licensees of Butterfield would be exposed to claims of infringement of the Tuohy patent and that licensees of Plastic would be charged with trespass upon the rights of Butterfield."

Frontier had no systematic method of trying to determine which lens it was manufacturing, or which patent it was manufacturing a lens under, and routinely accounted for and paid a royalty for all of the lenses manufactured. The purpose of the agreement was to pay

small sums for all devices made.

Therefore, the court finds that, when Frontier entered into the agreement, it understood that it was to account and pay PCL for all devises manufactured, whether under the Tuohy, Butterfield or any other patent covering corneal contact lenses. The evidence shows that Frontier followed this practice and paid for all devices until October, 1962. After that, Frontier continued to manufacture lenses under the Tuohy patent and continued to account for all lenses manufactured until the accounting stopped.

Therefore, the court rejects the argument of Frontier that it discontinued using the Tuohy patent after 1962. Furthermore, the same royalty provision used in this license calling for the payment of sums for all devices made, whether under the Tuohy, Butterfield or another patent, was approved by the court in PCL v. Butterfield, supra.

However, the court finds that the licenses granted to the Butterfield interests were not "for the manner of settlement for past infringement." The decision in favor of the plaintiff is not based upon this exception to Section 8 of the agreement.

On January 5, 1966, Frontier filed a certificate of dissolution with the State of New York and distributed all of its assets to the individual defendants who were the stockholders of the corporation.

Section 1005 (a) (3) of the New York Business Corporation Law directs that, upon the dissolution of a corporation, provision must be made for the payment of liabilities before the distribution of assets to the shareholders. The defendant shareholders hold the assets which they received, in trust for the benefit of creditors. U.S. v. Oscar Frommel & Bros., 50 F. 2d 73 (2d Cir. 1931), cert. denied 284 U.S. 647.

The individual defendants are liable jointly and severally. The counterclaim of defendants is dismissed.

The defendants are directed to account to the plaintiff for all of the plastic lens devices manufactured and sold during the term of the license agreement.

If the parties cannot agree on the amount of the liability of each defendant, the plaintiff shall, thirty days from the date of this order, prepare an order on notice for an accounting by a master to be appointed by the court.

So ordered.

/s/ JOHN T. CURTIN
United States District Judge

DATED: October 29, 1969

I

LICENSE AGREEMENT

"2.

(a) LICENSEE, solely for the purpose of accounting hereunder, agrees to pay to SOLEX royalties upon such devices consisting of pieces of finished material in which two lens surfaces are applied thereto and which are adapted to be or are made into a finished or unfinished corneal contact lens calculated in accordance with the following schedule on all such devices sold by LICENSEE:

$1.00 on each pair of the first 150,000 pairs of devices or $.50 per device

$ .75 on each pair of the next 100,000 pairs of devices or $.375 per device

$ .50 on each pair of the next 100,000 pairs of devices or $.25 per device.

$ .25 on each pair of all additional pairs of devices or $.125 per device.

LICENSEE shall not pay royalties to SOLEX on finished or unfinished lenses (i.e. lenses upon which two lens surfaces are already formed) when purchased from SOLEX or from a licensee of SOLEX, and which lenses shall not be counted in the total number of devices sold by LICENSEE under the scheduled hereinabove."

PCL v. BUTTERFIELD, 366 F. 2d 338 340

"The Oregon suit into which Plastic had moved as plaintiff ended by compromise in April, 1962. Solex Labs, Inc. v. Butterfield, 202 F. Supp. 461 (D.Or. 1961). Pursuant to the agreement there was entered, with the consent of the parties, a judgment in which it was declared that the Butterfield patent was valid, that it had been infringed by Solex, Plastic's predecessor, and that the amount of infringement damages had been settled by agreement between Butterfield and Plastic. Under the terms of the compromise, Butterfield and the Butterfield corporation dismissed, with prejudice, all claims against Plastic (other than the settled infringement claim against Solex) and granted to Plastic a royalty-free license to the Butterfield patent. In exchange, Plastic released Butterfield, his licensees, and the Butterfield corporation from all claims of infringement of the Tuohy patent to the date of the agreement, gave to Butterfield the right to grant royalty-free licenses under the Tuohy patent to four Butterfield licensees and to the Butterfield corporation, so long as it was held by the Butterfield family, and agreed to pay Butterfield the sum of approximately $66,000. It was specifically agreed that both Plastic and Butterfield might, by solicitation, seek to enter into license agreements with existing licensees of the other and that both might enforce their rights to their respective patents against such licensees in the future."

(Letter of IRWIN PANTER, General Counsel for The Plastic Contact Lens Company)

"October 25, 1962

TO: THE LICENSEES OF
THE PLASTIC CONTACT LENS COMPANY

Gentlemen:

To fulfill our obligation under our licensing agreements, this letter is being sent to advise you of the circumstances under which The Plastic Contact Lens Company recently settled its patent litigation with George H. Butterfield, Sr. and his company, George H. Butterfield & Sons.

In that litigation Solex Laboratories, Inc. and The Plastic Contact Lens Company, as its successor, were charged with infringing Butterfield U.S. patent No. 2,544,246. Our patent counsel, Bair, Freeman & Molinare, who conducted the litigation and made the settlement, advised us that such litigation necessarily required the expenditure of substantial costs of litigation and exposed us to the risks involved in litigation.

To avoid this situation, a settlement agreement with the Butterfield interests was entered into, under which The Plastic Contact Lens Company was fully released from all claims alleging infringrement of the Butterfield patent. As consideration for such release, The Plastic Contact Lens Company invested in George H. Butterfield & Sons the power to grant a non-exclusive, non-transferable, royalty-free license under Tuohy patent No. 2,510,438 to George H. Butterfield & Sons and to the four other companies which at that time were licensed under the Butterfield patent, namely, Titmus Optical Company, Rogers Brothers, Southern Contact Lens Laboratories, Inc., and Utah Optical Supply Company.

These four last-named companies were included in the arrangement because of the Butterfield interests

had indemnified them against liability arising from their infringement of the Tuohy patent. Their licenses under the Tuohy patent are conditioned upon their continuing to pay royalties under the Butterfield patent, and their license does not include the rights under our patent application Serial No. 701,153.

But thus settling the litigation with Butterfield, The Plastic Contact Lens Company not only relieved itself of possible material liability for past infringement, but also of substantial litigation expense which would have been incurred notwithstanding a decision in our favor.

Under the circumstances, it is clear that our settlement with the Butterfield interests did not constitute the granting of a license under Tuohy patent No. 2,510,438 'upon terms and conditions more favorable' than those provided in our standard license under that patent.

However, to fulfill all technical requirements of the license agreement, we are, by this letter, notifying all licensees that The Plastic Contact Lens Company stands ready to extend a revised license under the Tuohy patent No. 2,510,438 to any licensee which (a) deems our settlement with Butterfield to be 'more favorable' than the terms of our standard license, and (b) is in a position to grant to The Plastic Contact Lens Company consideration equivalent to that which we received from the Butterfield interests.

To qualify for this offer, a licensee must show consideration equivalent to those involved in that case of which the paramount ones are: (a) that it owns a U.S. patent that has been infringed by The Plastic Contact Lens Company, and (b) that such infringement has been of such magnitude as to yield a contingent liability comparable to that released by Butterfield.

To the best of our knowledge, none of our licensees is in such a position; indeed, so far as we know, none of our licensees holds any U.S. patent applicable in any manner to our products.

Should any of our licensees consider itself qualified to invoke paragraph 8 of our standard license agreement by virtue of our settlement with Butterfield, we should promptly be so advised in writing.'

Very truly yours,

/s/ Irwin Panter
IRWIN PANTER
General Counsel for
The Plastic Contact Lens Company"

IP:vm

(Letter of FRONTIER CONTACT LENSES, INC.)

"May 14. 1963

Irwin Panter, Esq.
Panter, Nelson, Rothstein & Albert
10 South LaSalle Street
Chicago 3, Illinois

RE: Plastic Contact Lens Company

Dear Sir:

This will acknowledge your letter of April 24 referring to a claim against us by Plastic Contact Lens Company for royalties under our license agreement with that company.

Under date of March 22, I advised Plastic Contact Lens Company that we had ceased paying royalties under our agreement when we received information concerning the arrangement made by Plastic with the Butterfield interests. We have now been advised by our counsel that we are fully justified in discontinuing such royalty payments, in view of the terms of our agreement and the terms of licenses subsequently granted by Plastic to others, through Butterfield, under Tuohy patent No. 2,510,438.

More particularly, we are advised as follows:

Paragraph 8 of our license agreement with Plastic (assignee of Solex) provides that if Plastic should thereafter grant a license to another party under the Tuohy patent 'upon terms and conditions more favorable than those herein accorder for the manner of settlement for past infringement, SOLEX (Plastic) shall promptly offer LICENSEE the benefit of such more favorable terms and conditions, which upon acceptance shall be retroactive to the date that such more favorable terms and conditions were accepted by said other person, firm or corporation.'

Subsequent to our above-noted agreement with Plastic, the latter, through Butterfield, granted royalty-free licenses

under the Tuohy patent and for the life thereof to certain licenseees of Butterfield, that is, licensees under Butterfield patent No. 2,544,246. The royalty-free licenses so granted terminate only if the license under Butterfield U.S. Letters Patent No. 2,544,246 terminates or the licensee is more than six months in arrears in his royalty payments under the Butterfield license agreements.

At the time when Plastic granted such royalty-free licenses to these licensees of Butterfield, we were also a licensee of Butterfield under patent No. 2,544,246. Our license agreement with Butterfield has not been terminated nor are we six months in arrears in payments as provided for in our Butterfield license agreement.

While it appears that Butterfield agreed to indemnify these other licensees against liability arising from their possible infringement of the Tuohy patent, this circumstance could have no bearing here. Any such indemnity agreement constituted at most an added consideration from Butterfield to these licensees and obviously does not alter the dominating fact that these other licensees as subsequently licensed by Plastic, were accorded more favorable terms than those accorded to us.

It is clear that whatever was agreed upon as the terms applicable to Butterfield for his rights acquired from Plastic under the Tuohy patent, the only terms applicable to these other Butterfield licensees for their royalty-free licenses acquired from Plastic under that patent were those providing for termination of the license from Plastic upon termination of or non-payment under the Butterfield license, as previously mentioned. It is equally clear that in view of Paragraph 8 of our agreement with Plastic, the benefit of the more favorable license terms and conditions accorded by Plastic to these other licensees of Butterfield should have been offered promptly by Plastic to us, to be effective as of the earliest date when they were first accepted by a licensee included in these other licensees. Plastic's failure to make this offer to us was in default of its obligation under Paragraph 8.

We do not now choose to exercise our right to cancel our agreement with Plastic on account of this default, as provided by Paragraph 12. However, we do insist upon our right under Paragraph 8 to have the benefit of the royalty-free Tuohy patent licenses accepted by these other licensees of Butterfield, on the terms previously mentioned.

We understand that the terms and conditions of Plastic's licenses to these other licensees of Butterfield were accepted by at least one of them in May of 1962. Therefore, by a copy of this letter which we are sending to Plastic, we demand that it return to us the total amount which we paid as royalties to Plastic on account of the period since May, 1962, as that amount was not required to be paid under the agreement and was paid mistakenly due to Plastic's failure to make the offer as required by Paragraph 8.

We are enclosing with the copy of this letter directed to Plastic, reports to Plastic as Licensor pursuant to Paragraph3(a) of our License Agreement. These reports cover the months of October, 1962 through April, 1963.

Sincerely yours

FRONTIER CONTACT LENSES, INC.

/s/ Allan A. Isen
Allan A. Isen
President

AAI:gd

CC to: Plastic Contact Lens Company
59 East Madison Street
Chicago 3, Illinois"